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Surprise! The markets like Trump after all

What exactly are markets? If the answer seems self-evident, consider the curious reaction of the financial world to the election of President Trump this week.

Trump was a wild-card candidate who represented uncertainty, which is something markets are supposed to hate above all else.

"The markets are going to go crazy at this news," trembled one politico journalist on the BBC early in the morning of 9th November when the results were still coming in.

One got the impression she didn't quite know what that meant, that "the markets would go crazy" but that she knew it was the right thing to say.

And perhaps in that little vignette lies the key to interpreting the whole series of misunderstandings that have arisen between markets, the media and the electorate over the past few months.

Markets are all-powerful, but what is it that they actually do? And are they actually all-powerful or is it just that the current incarnation of the Western World's political institutions are so weak? Are markets simply waiting for something or someone strong to provide a lead?

It would be overly simplistic to say that on Tuesday we got the answers. But one thing we have learned, twice in short succession this year is that if we are looking for answers, we shouldn't expect markets to provide them.

But that is only right. Think about what a market is - it is a place where people buy and sell. Traditionally, it had a geographic location. Latterly it has simply constituted the sum of all trades. It is not an entity with interests, views, opinions or wisdom. It does not have political expertise or skill, and it cannot predict the future.

Are markets all-powerful? - no! And they're not meant to be. They're simply places where money and goods change hands. You read a narrative into it at your peril, as those who called Remain and those who called Hillary have discovered.

Both calls were based on rational analysis, but on rational analysis conducted only from inside the safety bubble of the markets themselves. The fact that the world is growing richer as a whole creates a logical argument for continuing on the same economic path. But this has no resonance with unemployed steel workers in the rust belt. And while unemployed steel workers have a vote, economic analysis does not.

Because if the thinking is that we should make the world richer, let's think about at whose expense that might be - if it's at the expense of the people who vote you in, who's the greater fool? You are out, and the world isn't richer. You've got to get those people on side first. If you don't you are gone, like Hillary and like a big calved iceberg of European and American liberal thought.

The twist this time is that while those who read narrative into the market predicted the wrong result, and they also predicted wrongly what would happen if Trump did win. Markets have not met their own expectations about their own behaviour. Trump's victory continues to perplex.

Thus, the Dow hit record intra-day highs. European markets rose, wavered and then climbed down. Senior Japanese government officials held emergency meetings as investors piled into the yen. But the effect was short-lived.

Gold jumped, but didn't soar, and then settled back below US\$1,300 an ounce as the dollar strengthened.

And why did the dollar strengthen? This is an open question.

Some say that the Fed must have intervened directly to forestall any panic - wrong-footing the famous aversion to uncertainty. After all, if the Fed can buy corporate bonds in the quantities that it does, it can buy dollars.

But over and above such arcana, there's suddenly a feeling at large that America has direction.

Trump is going to be more business friendly, cut taxes and create jobs.

Trump is going to initiate a vague, but loudly touted infrastructure spending campaign. This has shades of Roosevelt's New Deal and we all know what happened after that - America emerged as the world's Number One global superpower.

Trump is going to be more protectionist. This is primarily to protect American jobs and American industry. But it also means that emerging markets will do less well. Hence the emerging market currencies have all been pummelled and the dollar has risen. The Mexican peso in particular has fallen, as the future of NAFTA is now very much in doubt.

Good news for Mexican-focused miners like Great Panther Silver (TSE:GPR), which has just converted its accounting currency to US dollars and incurs all its costs in Pesos. Bad news for proponents of free trade and Mexican employment in general. One paradoxical effect of this may be a further flood of emigration from Mexico as the Mexican economy suffers.

Where will all the emigrants go? - over the wall, of course, just like the Berliners did in the 1960s.

After all, for all that the liberal media is up in arms, we've seen all this before. Have we had a leader of the Free World with a dodgy relationship to women? - go read a biography of William Gladstone. Have we had protectionist Presidents? - all the way back to Washington. Have we had walls? - there's one right here in the UK, in Belfast on the Falls Road, there's one in Jerusalem, there used to be one in Berlin, and China too had one, long ago. They are a sign of weakness and they never last.

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